

WINE BOOM IN KOREA

Until recently, few exporters looked seriously at the Korean market. However, since it was opened some ten years back, the wine market has shown some of the fastest growth in Asia – and analysts expect the coming years to be equally heady, as savvy consumers drink not only more, but better, Jamie Kim observes.

Asia's position as the largest market for alcoholic beverages remains uncontested, accounting for 45.7% of world consumption. Among the far eastern markets, China, including Hong Kong, downs the lion's share of this volume, followed by Japan. Compared with these two larger countries, the Korean market is small. For wine, however, which nonetheless still accounts for only about 1% of the total alcohol trade, consumption scored an impressive growth rate of 238% between 1999 and 2005 – and market analysts predict that it will reach 385,000 hectolitres by 2010, chalking up another 62.9% growth on its way and bringing the average per capita consumption to one litre, up from only about 0.6 today.

Imported wine currently accounts for 71% of Korean consumption, up from 65% only three years ago. Local production has stagnated, even fallen. When the wine market was opened in October 1987, only 12 importers started businesses. Four years later, in 1991, importation of liquor was opened to foreign investment; but wine sales only truly began to boom when direct retail sales, which today account for almost half of the imported goods, was introduced in 1995. In 1997 sales peaked at a record of \$ 22,802,812 (€17.8m), but suffered during the financial crisis that began in 1998. Today there are 350 wine dealers with import licenses, about 70% of which are thought to be active.

Rise of red wine in Korea

When a local network TV station aired a special feature on the potential health benefit of red wine in 2000, the Korean public showed keen interest – and it soon became popular to drink beverages with lower alcoholic content, in particular wine. This brought younger consumers to the wine market, which had been up to then primarily occupied by an affluent, older generation. Since then, drinking wine has become fashionable among younger people, particularly women. Although they drink wine no more than once or twice a month on average, consumers under the age of forty now account for more than half of the total market. With this impetus, wine consumption began growing again, registering 1,041,685 nine litre cases and \$ 23,108,669 (€18m) in total import value in 2001, surpassing the previous record. Since then volume has doubled, but value almost tripled, indicating that wine consumers – although drinking more – prefer quality over quantity.

All of the world's wine exporting countries are prospering to an extent in Korea, but Chile has had the greatest fortune.

Ranking only 7th in 2002 with 4.1% market share, it jumped to 2nd place with 17.85% in 2005 on the heels of the Free Trade Agreement with lowered excise duties. France, although showing signs of decline since its heyday in 2002 when it vaunted a 55.4% market share, still retains the top spot in the charts with a 37.5% share. Also suffering a slight decline from 14.83% in 2002, American wine dropped to 3rd place with 14.03% in 2005. Italian, Australian, German and Spanish wines fill the ranks.

The Free Trade Agreement between Korea and Chile contributed greatly to the rapid success of Chilean wine in Korea. The gradual reduction of excise duties followed by a total exemption of import tax gave Chilean producers a major advantage, allowing them to appeal to younger consumers with an offer combining both quality and a reasonable price. Free Trade Agreement talks are now underway between Korea and US. If signed, the Korean wine market will witness another drastic change in market shares.

Is wine a luxury item?

Wine is still largely regarded as a luxury item in Korea. The average wholesale price of a bottle of wine last year was \$9.83 (€7.67), about three times the world average. Import taxes and the fat profit margin of the dealers certainly contribute to this high pricing. For example, a wine costing KRW 10,000 ex cellars reaches 29,800 won after excise duties, liquor taxes, insurance fees, import taxes and the like. This makes the shelf price in Korea significantly higher than in other international markets, with the average bottle costing four times the export value. In hotels and restaurants, that account for an impressive 40 percent of total sales, this figure often reaches eight times the price charged by the producer. The fact that Korea taxes wine based on export value rather than volume or alcohol raises the prices for higher quality wines even further, penalizing the drinker who wants to trade up. Wine is thus still very much considered a luxury beverage in Korea.

Importers and consumers

The wine importers can be sorted into 3 major groups: foreign firms such as Moët-Hennessy Korea, Maxium Korea and PRK; domestic powerhouses such as Doosan, Donwon Wineplus, Hiscot, Koouksoondang L&B, Les Vins de Maeil, Nara Food, Shindong wine, SK networks, Sooseok trading, Vitis Korea, 39 wine and the Korea Tourist Liquor Supply

Center; and smaller private companies such as Keumyang international, A-Young FBC, Cave de Vin, Kil jin international, Agan Korea, Kaja Wine & Sprit Trading, Sharp trading, Sunbo Liquor, Vino Vino, Aqua celler, Bachus, Vintage Korea, Luvvin Korea, Corvin and Global Liquor. It was the large domestic importers entrance into the market that triggered a portfolio battle.

The major consumer group has shifted from the 50 to 60s to the white collar 30 to 40s, fed by the rise of younger, more highly educated consumers. The dissemination of information is fostered mainly through friends, internet portals and wine magazines, with mouth to mouth promotion being the most important factor. 9 out of 10 consumers purchase wine off-trade either at large discount stores or wine shops, whereby younger generations prefer the discount stores. The average purchase price is Won10,000 to 30,000 (€8 to 25) range. Due to the success of Chilean wine, cheap and easy-drinking wines have become the best sellers.

What sells?

The wine market is no exception to the Korean proverb „the title says it all“. Successful wines generally sport easy names and impressive labels. Take the conspicuous colour yellow, for example. The Australian [yellow tail] with its kangaroo has prospered, Veuve-Clicquot's sales jumped after the introduction of yellow label. Montes Alpha's success is due largely to its impressive name. The easy to pronounce Château Talbot has long enjoyed enormous popularity among clarets. The white Zinfandel from Beringer is the lady's favourite, while Sutter Home takes advantage of its easy to remember name. Similarly, Chianti sells better than Brunello di Montacino or VINO Nobile di Montepulciano - and the Australian bin series also exploit their easy numbers.

Since the programme vaunting the potential health benefits in red wine, those sales have sky-rocketed and now account for two thirds of the total market. The wine drinking scene

COMMENT

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Yung Yong Cho

Although we have witnessed impressive growth over the past five years, annual per capita consumption in Korea is still below one litre; but we might well triple that in the next five. I believe that Italian wines have enormous potential. Still, the French will be hard to knock from their perch. In the near future, though, brands will be most powerful instruments in boosting wine sales.



Yung Yong Cho is one of Korea's aspiring young wine writers. His recent book „All that wine“ was widely acclaimed by the local press at this year's wine fair.

is also still frequently seen on television shows - and between 1991 and today the number of articles on wine in major news papers has increased by four fold. The Korea Wine Challenge, run by the Wine Review from the 5th to the 16th of February 2007, provides consumers with judgements on the wines currently on the market. Winies, the other major Korean wine magazine that just celebrated its third anniversary, attracts readers by offering them a variety of information written by international wine experts - and internet sites such as www.winenara.com and www.wine21.com are the most active wine promoters.

The Korean wine market is yet small in size, but growing rapidly. Korea is no longer the country of „morning calm“, but a dynamic market where every second counts. That should be readily apparent at next years International Wine Expo, which takes place in Seoul from the 2nd to the 4th of March 2007. ■

1 Benchmark Data	www.kr
Population:	48.5 million
GNP:	\$ 1,099 billion (€ 858 billion)
Currency:	Korean Won (1,000 KRW = € 0.83)
Per capita wine consumption:	0.58 litres
Total wine consumption:	26.5 million litres
Legal drinking age:	19


